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THE PHYSICAL CONDITION OF A MUNICIPALITY ISSUING BONDS

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In the purchase of municipal bonds, the dealer should be personally acquainted, and familiar in every way, with the issuing municipality. By this is meant that no dealer should purchase an issue of municipal bonds without having first sent a representative to make a personal investigation of the municipality desiring to negotiate its securities. The aforesaid precaution is absolutely necessary in order that the dealer may be in a position fully to protect the interest of his clients, and also to inform them on every point regarding the investment he offers; for, it must be understood that the legitimate bond house purchases these securities for its own account.

The representative who makes this investigation should be one whose personality includes great intuitive power; for, possessing this quality, he will, within the course of a very few hours after arriving at his destination, be able to determine what should be considered the salient features of the physical condition of that particular municipality. Webster tells us "intuition" is "immediate knowledge as to perception." He also defines "intuitive" as "perceived by the mind immediately." Therefore, if the layman, or even one experienced in the handling of municipal investment securities, will fully consider the meaning of the words "intuition" and "intuitive," he will understand why this quality is the primary essential for one who undertakes to determine the physical condition of a municipality.

For the benefit of those who are perhaps unfamiliar with the points most considered by those experienced in the purchase of municipal investments, the following information, in as concise form as possible, is given:

Before a representative is sent to make an investigation, the territory in which the municipality is located is taken into consideration by the intending purchaser, the chief reason for this being that the investing public of this country show great partiality with

regard to location, when contemplating the purchase of municipal securities, showing preference usually for a municipality which has been settled for a long period. In other words, they do not care for the securities (unless they can be had at a very reasonable price) issued by what is termed "the newer sections." To this may be added, that a territory which receives a sudden "boom" and shows immense progress in the way of population and new industries, within a short time, is also regarded in some disfavor; at least until the municipality shows that its sudden growth is due not to a "boom," but to the natural resources which the territory can offer. The majority of securities issued by Southern municipalities are also in less favor than those of the Northern territory. This must be considered when a dealer has under advisement the purchase of Southern municipals. The readers of this article who are experienced investors, will know from dealings they have had, that there is quite a difference in the selling price of Southern and Northern bonds.

The above is due to several reasons, one of which is that during and after the war it became necessary for a number of Southern municipalities to default in their obligations. This was without doubt due to the devastation caused by the strife between the North and South, which gave opportunity to unprincipled politicians, placed in office by the federal government under military law, to cause the municipalities to create indebtedness for which they received very little or no return. Another reason is that a great many investors take into consideration that almost half of the population of the South is composed of negroes, a class of citizens which they do not consider so intelligent and thrifty as the Caucasian race or for that matter, as other nationalities. In this connection, however, the writer wishes to say, that his ideas, formed from active experience in the municipal bond business, do not coincide with those of the investing public who may have objections from the standpoint of safety, to placing their surplus funds in Southern municipal investments. The main reason for this conclusion is that the laws under which Southern municipals are now issued are really better than those in force in the Northern states. This is easily explained by the fact that, after the war, nearly all Southern states revised their laws governing the issuance of public securities, and in adopting new laws took the good

features of those existing in the North and combined them into a constitution for their respective states, which, when adopted, gave better protection both to the investor and to the citizens of the issuing municipality.

Furthermore, during the last twenty years the people of the South have awakened to the fact, that the only way they can progress and equal Northern business methods is by "putting their shoulders to the wheel," and interesting capital to develop the many resources which the South possesses and is in a position to offer to the rest of the world.

Great advancement has also been made in the South toward using the negro race to the best possible advantage for the development of the natural resources. While this question, however, still needs a great deal of thrashing out before it will be settled to the satisfaction of the South, the North and the colored race itself; yet, as some of the best men in this country are devoting themselves to the task, a solution will no doubt be secured at an early date. Therefore considering the great amount of capital which is now being invested in the South, and with a satisfactory adjustment of the question mentioned above, the Southern municipal securities should, within a very few years, rank in market value with those of the North. It can be said, that the Southerner, as a rule, places great stress upon a debt incurred and makes every effort possible to discharge it, because of the honor which he feels is involved.

After coming to some conclusion regarding the territorial merits of a security and before the representative leaves to make his investigation, the intending purchaser takes into consideration such items as the financial condition of the city or county, the character of the citizens, the progressiveness shown in building up the municipality, railroad and water facilities, ownership of public utilities, and the possibilities of the municipality in the future. All this is ascertained so far as possible through records and statistics, such as are on file in a well-conducted investment dealer's office. The opinions formed regarding existing conditions before the representative leaves, are then placed in his charge for verification upon arrival at his destination.

The financial condition of the municipality is determined by the following points:

(1) The proportion of assessment of the property of the community, as against its real value.

(2) The size of its tax duplicate.

(3) The total amount of its indebtedness and of what it consists. If part of this indebtedness is created for special assessment purposes, or the building of water works, electric light plants or school houses, so that the actual net indebtedness (securities issued for improvements which could practically not be realized upon after they are made, such as sewers and streets) is not too large—we will say, not over eight per cent of the assessed valuation—this is usually regarded as a good financial condition and will add considerably to the price which the intending purchaser will pay for the security. To this may be added that very often the constitution of a state prohibits a larger gross indebtedness than five to ten per cent of the assessed valuation. Where this is the case, it also adds to the value of the security.

Being satisfied as to the financial condition of the municipality, the buyer should then consider whether there has been any provision made for the retirement of the indebtedness. After this is settled the population is taken into consideration. This question is rather simple in nature, attention being given chiefly to the number of inhabitants, this being always determined by the federal census, or a certified statement by the officials of the municipality. Attention is also given to the character of the citizens; whether they are of a roving disposition, or of a nationality that usually goes to a place to make homes and help build up the municipality.

The record as to the progress made by the municipality since its incorporation is then duly considered. If it is shown that it has steadily gained in population, that new industries are locating there, that railroads are catering to the town, that there are ample water facilities and the necessary public utilities, this is taken as evidence that the citizens are of a progressive nature and doing everything in their power to further the welfare of the municipality.

The administration from a political standpoint must also receive serious thought, as much harm can be done by not having capable officials in charge of municipal affairs. If a satisfactory conclusion can be reached regarding this, the market value of the security will be enhanced. The railroad and water facilities of a community are of special importance to the bond dealer when considering the

purchase of municipal bonds. If these utilities are ample, the stability and market value of the security will be strengthened.

The question of the ownership of public utilities is now receiving attention from the public in general. As there is a growing tendency towards municipal ownership, the dealer in investments must give this very careful thought, and inquiry should always be made whether the municipality desiring to negotiate a loan, owns its water works, electric light plant, telephone system and street railways. If so, a statement should be obtained from the city officials of how these various utilities are operated, whether they have proven a profitable investment for the taxpayers, or whether it would be more advantageous to have them operated by private corporations. The successful operation of public utilities, when owned by a municipality, depends a great deal upon whether or not they are operated free from politics. It has been found, as a rule, that where politics are not a factor in the operation of public utilities, the municipality can save its citizens money by owning these outright. This is especially true in the case of water works and electric light plants. In the matter of telephones, street railways, etc., municipal ownership is gradually being developed; but, in the opinion of dealers in investment securities, these utilities should not for the present be owned by municipalities. In fact, it has been proven, in the few cases where telephone and street railway facilities are owned by municipalities, that the investment has not been a good one for the taxpayers of the community. If, however, the public utilities are operated in a creditable manner, this must necessarily increase the assets of the municipality, and at the same time enhance the market value of its securities.

As a last consideration in determining the physical condition of a municipality, in addition to the points more fully discussed above, the representative will take note of the condition of streets, sewerage, character of buildings, commercial pursuits, and the imperative need of the municipality to make the improvement, or possess the utility, for which it desires to create an indebtedness. And finally comes the impression he receives of the advantages or inducements the municipality can offer to its inhabitants, or to prospective home seekers, to settle within its limits and help build up a prosperous community.